

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

In Re: W.R. GRACE & CO., et al., Debtors.	§ § § § § §	Chapter 11 Jointly Administered Case No. 01-01139 (JKF)
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**FEE AUDITOR'S FINAL REPORT REGARDING
FEE APPLICATION OF THE BLACKSTONE GROUP L.P.
FOR THE FIFTH INTERIM PERIOD**

This is the final report of Warren H. Smith & Associates, P.C. ("Smith"), acting in its capacity as fee auditor in the above-captioned bankruptcy proceedings, regarding the Interim Fee Application of the Blackstone Group L.P. for the Fifth Interim Period (the "Application").

BACKGROUND

1. The Blackstone Group L.P. ("Blackstone") was retained as financial advisers to the Debtors. In the Application, Blackstone seeks approval of fees totaling \$525,000.00 and costs totaling \$3,953.17¹ for its services from April 1, 2002, through June 30, 2002.

2. In conducting this audit and reaching the conclusions and recommendations contained herein, we reviewed in detail the Application in its entirety, including each of the time entries included in the exhibits to the Application, for compliance with the Local Rule 2016-2 of the Local Rules of the United States Bankruptcy Court for the District of Delaware, Amended Effective

¹This amount excludes word processing expenses that were set forth in the monthly invoices, which expenses Blackstone withdrew, stating in its response: "Blackstone has provided to the Fee Auditor information that it believed would be convincing that these expenses should not be considered nonreimbursable overhead. Having failed to date to persuade the Fee Auditor of that, Blackstone will delete this expense. . . ."

February 1, 2001, and the United States Trustee Guidelines for Reviewing Applications for Compensation and Reimbursement of Expenses Filed Under 11 U.S.C. § 330, Issued January 30, 1996, (the "Guidelines"), as well as for consistency with precedent established in the United States Bankruptcy Court for the District of Delaware, the United States District Court for the District of Delaware, and the Third Circuit Court of Appeals. We served on Blackstone an initial report based on our review, and received a response from Blackstone, portions of which response are quoted herein.

DISCUSSION

General Issues

3. While Blackstone was retained pursuant to an engagement agreement providing for Blackstone to be paid a flat monthly fee of \$175,000, its fees remain subject to the provisions of 11 U.S.C. § 330. The Order Appointing Fee Auditor in Accordance with the Court's Direction (the "Fee Auditor Order") provides that

[t]his order applies to (i) all professionals in these cases employed or to be employed pursuant to sections 327, 328 or 1103 of the Bankruptcy Code; and (ii) any claims for reimbursement of professional fees and expenses under section 503(b) of the Bankruptcy Code to the extent permitted by the Court, except: (a) professionals providing services pursuant to an order that does not require submission of fee applications; and (b) professionals retained pursuant to the Court's Order pursuant to §§ 1107(a) and 1108 Authorizing the Debtors to Employ and Compensate Certain Professionals Utilized in the Ordinary Course of the Debtors Business, dated May 3 2001.

Fee Auditor Order at 2 (internal footnote omitted). Accordingly, Smith has reviewed the Application to determine compliance with the requirements of section 330.

4. In our initial report, we noted that Blackstone professionals spent a total of 638 hours on the activities for which fees totaling \$525,000.00 are sought. Thus the effective hourly rate is


\$822.88.

CONCLUSION

5. Thus we recommend approval of fees totaling \$525,000.00 and costs totaling \$3,953.17 for Blackstone's services from April 1, 2002, through June 30, 2002.

Respectfully submitted,

WARREN H. SMITH & ASSOCIATES, P.C.

By: 
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FEE AUDITOR

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document has been served First Class United States mail to the attached service list on this 19th day of November, 2002.


Warren H. Smith

SERVICE LIST

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